

## BUDGET MANAGEMENT AND COMPENSATION RESERVES

### 1. REQUIRED GENERAL FUND STATUTORY BALANCE

**Governor:** Modify the current law provision that requires a statutory general fund balance equal to 1.4% of gross general fund appropriations plus GPR compensation reserves for fiscal year 2002-03 (the second year of the budget biennium) to reduce that amount to 1.2%. As a result of a Governor's partial veto to 1999 Wisconsin Act 9, no statutory reserve percentage exists for fiscal year 2001-02 (the first year of the budget biennium); however, the Governor's budget has a statutory reserve amount equal to a percentage of 1.2%. The Governor's budget also has a 1.2% statutory reserve for second fiscal year 2002-03, in accordance with the proposed statutory change in the bill. Under the bill, the statutory balance would be \$139,453,500 for 2001-02 and \$143,472,900 for 2002-03. If the law were not changed, an additional \$23.9 million GPR would need to be allocated to the statutory reserve to comply with current law for 2002-03. [Note: under current law, the statutory reserve percentage is scheduled to increase to the following levels in future years: (a) 2003-04: 1.6%; (b) 2004-05: 1.8%; and (c) 2005-06 (and thereafter): 2.0%]

**Joint Finance:** Modify the Governor's provision to provide that, for 2002-03 only, the required statutory balance would be set at a specified amount of \$50,000,000 in lieu of a set percentage amount. The existing statutory percentage levels for future years would remain the same as under current law.

**Senate:** Provide that after any monies available for transfer to a new cash building projects fund have first been used to repay the \$115 million of general school aids scheduled to be made in June, 2003, but which under the Joint Finance substitute would not be paid until July, 2003, (school aid payment delay), then any other available monies next be used to be increase the GPR amount set as a required statutory balance for the fiscal year, if that statutory balance is less than 2% of total general fund (GPR) appropriations and compensation reserves for the year, so that the statutory balance for the fiscal year equals 2% of that amount.

**Assembly:** Delete the provision in the Joint Finance budget that stipulates that before any monies could be transferred to the tax relief fund, the first \$115 million of available revenues would first have to be used to buy back the delayed payment of June, 2003, school aid payments to July, 2003. Add a provision providing that before any monies could be transferred to a new tax relief fund in 2001-02, the first \$84 million of such funds that would be available for transfer to the tax relief fund would instead have to be used to increase the required statutory balance for fiscal year 2002-03 from \$50 million up to a maximum of \$134 million.

**Conference Committee/Legislature:** Include Senate provision with the modification that any monies available for transfer to a new cash building projects fund, after the \$115 million school aid payment delay was repaid, would next have to be used to increase the statutory

balance for fiscal year 2002-03 from the amount specified in the bill to an amount equal to 1.2% of total GPR appropriations and compensation reserves. In addition, modify the Joint Committee on Finance provision to specify that, for 2002-03 only, the required general fund statutory balance would be at a set amount of \$90,000,000 (rather than the \$50 million under the Joint Committee on Finance provision) in lieu of a specified percentage amount of GPR appropriations. The existing statutory percentage levels for future years would remain the same as under current law.

**Veto by Governor [F-3]:** Delete the change in the current statutory balance requirement for 2002-03 that would set it at to be \$90,000,000 but retain the repeal of the current 1.4% amount for 2002-03 so that in that section there is now no amount specified for the statutory balance for 2002-03. However, through another partial veto of the session law provision dealing with the first initial uses of monies that would otherwise flow to the proposed cash building projects fund, delete all language relating to the cash building projects fund except language which states "REQUIRED GENERAL FUND STATUTORY BALANCE FOR 2002-03. the amount that is necessary to maintain a required general fund balance under section 20.003 (4) of the statutes of 1.2%." Taken together, the remaining language specifies a required statutory balance for 2002-03 of 1.2% of total GPR appropriations plus compensation reserves. Under Act 16, the 1.2% statutory balance for 2002-03 would be \$142,701,500.

[Act 16 Sections: 392m and 9101(25j)]

[Act 16 Vetoed Sections: 392m and 9101(25j)]

## 2. COMPENSATION RESERVES

**Governor:** Provide, in the 2001-03 general fund condition statement, total compensation reserves of \$60,696,700 in 2001-02 and \$179,705,200 in 2002-03 for the increased cost of state employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table:

<u>Fund Source</u>	<u>2001-02</u>	<u>2002-03</u>	<u>Biennial Total</u>
General Purpose Revenue	\$27,900,000	\$82,500,000	\$110,400,000
Federal Revenue	7,565,700	22,503,500	30,069,200
Program Revenue	20,465,700	60,593,100	81,058,800
Segregated Revenue	<u>4,765,300</u>	<u>14,108,600</u>	<u>18,873,900</u>
Total	\$60,696,700	\$179,705,200	\$240,401,900

Details on the components included by the Governor in these reserve amounts were not provided by the administration. However, likely included in the compensation reserves are amounts to pay for: (a) the employer share of state employee health insurance premium

increases in the next biennium [*note*: see related issue regarding health insurance premiums under "Employee Trust Funds"]; (b) the costs of length of service payments for classified state employees; and (c) a reserve amount for the cost of pay increases provided by pay plan and collective bargaining agreements that will be approved for the forthcoming biennium. It is estimated that, after first deducting amounts for the potential costs for items other than general pay increase, there would be sufficient funds in compensation reserves to provide to all state employees the equivalent of a uniform across-the-board pay increase of approximately 0.8% in 2001-02 and an additional 1.7% in 2002-03. However, actual pay increases for some or all state employees may be different than this as a result of the specific provisions of applicable pay plans or collective bargaining agreements that are yet to be adopted for the 2001-03 biennium.

**Assembly:** Modify the Joint Finance provisions as follows:

a. *Reduce Funding for General Pay Increases.* Adjust the funding included in compensation reserves for general pay increases for state employees to retain funding estimated to be sufficient to reflect no general across the board increase in 2001-02 and the equivalent of a 2% general across the board increase in 2002-03. Reduce the amounts included in compensation reserves in 2001-02 by the following amounts: \$11,442,100 GPR; \$8,393,000 PR; \$3,101,300 FED; and \$1,953,900 SEG. Reduce the amounts included in compensation reserves in 2002-03 by the following amounts: \$7,145,500 GPR; \$5,241,400 PR; \$1,936,800 FED; and \$1,220,200 SEG.

b. *Eliminate Funding for Length of Service Payments.* Adjust the funding included in compensation reserves to delete all the funding estimated to be included for length of service payments to classified state employees. Under the current state compensation plan for non-represented classified employees and the respective collective bargaining agreements for represented classified employees, annual lump sum, non-base building payments are provided to those employees based on their number of full years of continuous state service. Payment levels range from a \$50 payment for employees with at least five years of continuous service to a \$250 payment for employees with at least 25 years of continuous service (there is a \$50 increase in the payment amount for each additional five years of service, up to the maximum payment amount of \$250). Reduce the amounts included in compensation reserves in 2001-02 by the following amounts: \$2,511,200 GPR; \$1,842,100 PR; \$680,700 FED; and \$428,800 SEG. Reduce the amounts included in compensation reserves in 2002-03 by the following amounts: \$2,684,500 GPR; \$1,969,100 PR; \$727,600 FED; and \$458,400 SEG.

**Conference Committee/Legislature:** Retain Joint Finance provisions.

### 3. STATUTORY LIMIT ON STATE GPR APPROPRIATIONS [LFB Paper 240]

**Governor:** Create a statutory limit, first effective for the 2003-05 fiscal biennium, on the percent by which year-to-year total appropriations from general purpose revenue (GPR) can increase. Provide that for any biennial budget period, the total amount appropriated (after certain enumerated exclusions) in that biennial period may not exceed the projected percentage

increase in state personal income for the next two calendar years. Require that the applicable projected increase in state personal income be determined by Department of Revenue by December 5<sup>th</sup> of each even-numbered year for the two calendar years for which January 1 of that calendar year immediately precedes respectively the first or second fiscal year of the budget biennium (for example, for the 2003-05 biennial budget, the two calendar years that would be the reference point for projected personal income growth would be January 1, 2003 and January 1, 2004 and thus projected personal income growth for calendar years 2003 and 2004 respectively). The Department of Administration (DOA) would then be required to use the projected respective percentage increases in personal income to determine the allowable increase in GPR appropriations for the forthcoming fiscal biennium and to include in the Executive Budget Book a statement of this determination. DOA would have the authority, in accord with the statute, to determine the prior year total GPR appropriated level to which the limit is to be applied. Specify that any appropriation passed by at least a two-thirds vote of each house of the Legislature, and any appropriation for any purpose listed below, are excluded from the total GPR appropriations otherwise subject to the expenditure limitation:

- Principal and interest payments on public debt
- Principal and interest payments on operating notes
- Payments to honor statutory moral obligation pledges
- Payments to the federal government from bond revenues to avoid designation of state bonds as arbitrage bonds
- Payments for legal expenses and the costs of judgments, orders and settlements of actions and appeals incurred by the state
- Payments for tax relief under s. 20.835(2) of the statutes
- Payments to execute a transfer from the general fund to the budget stabilization fund
- Payments to execute a transfer from the general fund to the tax relief fund (also created under this bill)

**Senate:** Delete provisions.

**Conference Committee/Legislature:** Modify Joint Finance provisions as follows: (1) add to the GPR appropriations that would be excluded from the statutory limit on annual increases in total GPR appropriations all GPR appropriations to the following agencies: (a) Higher Educational Aids Board; (b) Department of Public Instruction; and (c) University of Wisconsin System; (2) delete the exclusion of payments to the tax relief fund from the limit; (3) add an exclusion from the limit for payments to the cash building projects fund; (4) provide that the Legislative Fiscal Bureau (in consultation with the Department of Revenue) rather than DOR would make the projections of growth in personal income for the forthcoming calendar years

that would be used in determining the appropriations increase amount; (5) provide that the Legislative Fiscal Bureau, rather than the Department of Administration, would make the determination of the allowable increase in GPR appropriations for the forthcoming fiscal biennium, including determining the prior year total GPR appropriated level to which the limit is to be applied; and (6) provide that the projection of increases in state personal income be completed by November 20th of each even-numbered year rather than by December 5th of each even-numbered year and that the determination of the allowable increases in GPR appropriations for the forthcoming fiscal biennium be completed by December 1st of each even-numbered year rather than by December 31st of each even-numbered year.

**Veto by Governor [F-2]:** Delete exclusion of payments to the cash building projects fund from the limit as a part of a veto of the creation of the fund.

[Act 16 Sections: 103 and 9301(1)]

[Act 16 Vetoed Section: 103]

#### **4. TREATMENT OF BUDGET SURPLUSES AND DEFICITS [LFB Papers 241 and 242]**

##### **a. *Transfers to the Budget Stabilization Fund***

**Governor/Legislature:** Modify current law regarding transfers to the budget stabilization fund. Under current law, any transfers into the budget stabilization fund occur only as a result of specific legislative appropriation or direction. Provide, instead, an automatic procedure for transfer of certain revenue amounts to the fund. Create a requirement that the Secretary of the Department of Administration (DOA) annually calculate the difference between the amount of general purpose revenues (taxes) estimated (in the general fund condition statement) in the biennial budget act to be collected in each fiscal year and the amount actually collected. Require that if the Secretary, after calculating this difference, determines that projected taxes were less than the actual collections he or she shall transfer 50% of the additional tax revenues to the budget stabilization fund, subject to the following limitations: (a) no transfer to the budget stabilization fund may take place if the current balance in the fund equals or exceeds 5% of the estimated GPR expenditures for that fiscal year (this would a balance of about \$580 million under the Governor's budget); and (b) any calculated transfer amount would have to be reduced by the amount that such transfer would cause the required statutory reserve for any fiscal year to be reduced below the level set in the biennial budget.

##### **b. *Transfers From the Budget Stabilization Fund***

**Governor/Legislature:** Modify current law regarding transfers from the budget stabilization fund. Under current law, any transfers out of the budget stabilization fund occur only as a result of specific legislative appropriation. Provide that current language specifying that monies in the fund are reserved to be used during periods of low-economic activity when actual state revenues are lower than estimated revenues be repealed. Instead, modify current

statutory language relating to gubernatorial actions to be taken in event of a revenue shortfall exceeding 0.5% of gross GPR appropriations to include a requirement that a Governor's recommendations for dealing with such a shortfall include a recommendation as to whether monies should be appropriated from any available balance in the budget stabilization fund to the general fund. No change would be made to the current law provision that any transfers out of the budget stabilization fund to the general fund would be by explicit appropriation of a sum certain amount except that the fund would be designated as a non-lapsable trust fund.

*c. Transfers to the Tax Relief Fund*

**Governor:** Create a new non-lapsable trust fund titled the tax relief fund. Provide that revenues to the fund would come from any remaining funds determined to be available as a result of the calculation and transfer required of the Secretary of DOA under "a." above. Specify that the Secretary shall transfer from the general fund to the tax relief fund the total of the amount of additional revenues (if any) actually collected in a given fiscal year over the amount projected to be collected in the biennial budget act, after first deducting any amounts required to be transferred to the budget stabilization fund. This amount could be anywhere from 50% to 100% of the additional revenues determined by the Secretary to be available for transfer. There is no restriction on the total amount being transferred to the tax relief fund even if the statutory reserve were to be reduced below the otherwise required level as a result of the transfer.

**Joint Finance:** Modify the Governor's provision by specifying that the payment delay of \$115,000,000 of general school aids scheduled to be made in June, 2003, (see "Public Instruction") must first be bought back by using the first \$115 million of monies that would otherwise, under this provision, be deposited in the tax relief fund.

**Senate/Legislature:** Delete provisions.

*d. Transfers From the Tax Relief Fund -- Income Tax Credit*

**Governor:** Create a new personal income tax credit, the "tax relief fund tax credit". The credit would be a nonrefundable individual income tax credit for the purpose of returning moneys from the tax relief fund to taxpayers when the fund exceeds \$25,000,000.

The bill would provide that, no later than September 1 of each year, the Secretary of DOA would certify to the Secretary of the Department of Revenue (DOR) the amount in the tax relief fund. If the certified amount exceeded \$25,000,000, DOR would be required to determine a tax relief fund tax credit amount that could be claimed by taxpayers for the taxable year. No tax relief fund credit would be available if the certified amount were \$25,000,000 or less.

For example, under these provisions, DOA would certify to DOR by September 1, 2002, the amount, if any, in the tax relief fund. If the certified amount exceeded \$25,000,000, DOR would determine the tax relief fund tax credit that could be claimed by taxpayers when filing returns for tax year 2002 (due in April, 2003). If the certified amount in the tax relief fund on

September 1, 2002, were less than \$25,000,000, no tax relief fund credit would be available to taxpayers for tax year 2002.

Under the bill, when a tax relief fund tax credit is to be made available to taxpayers, DOR would be required to divide the total certified amount in the fund by the sum of all claimants (taxpayers), spouses of claimants (in the case of joint returns) and claimants' dependents to determine a credit per unit. (However, no credit could be claimed on tax returns filed by individuals who are dependents of other taxpayers.) The bill would direct DOR to modify the credit per unit so that as much of the total certified amount would be expended as possible. In addition, the bill would require the unit amount to be rounded down to the nearest whole dollar. No later than August 15 of the year following a year for which there has been a tax relief fund credit, DOR would be required to determine and certify to the Secretary of DOA the amount of revenue lost because of such credits claimed against individual income taxes.

With certain exceptions, no credit would be allowed unless it was claimed within four years of the unextended due date of the individual income tax return for the taxable year in which a tax relief fund credit was available. Part-year residents and nonresidents would not be eligible for the tax relief fund credit. The bill would provide that income tax provisions under Chapter 71 of the statutes relating to assessments, refunds, appeals, collection, interest and penalties would apply to the tax relief fund tax credit. DOR would be authorized to enforce the credit and take any action and conduct any proceeding as otherwise authorized under Chapter 71.

The provisions on the tax relief fund tax credit would first apply to taxable years beginning on January 1 of the year in which the bill generally takes effect, unless the bill's general effective date is after July 31. In that case, these provisions would first apply to taxable years beginning January 1 of the following year. No fiscal effect is estimated because the credit would be provided only if actual general fund tax revenues significantly exceeded estimates.

**Joint Finance:** Modify the Governor's provision to specify that no income tax credit would be made available until the amount in the tax relief fund exceeds \$100 million.

**Senate/Legislature:** Delete provisions.

*e. Cash Building Projects Fund*

**Senate/Legislature:** Create a new segregated fund, the cash building projects fund, to provide funding to be available for use in lieu of bonding, provide that the 50% of tax revenues in excess of budgeted tax receipts would go to this new fund and create a sum sufficient GPR appropriation for this purpose. Specify that monies in the cash building projects fund could only be used to pay for authorized capital expenditures that would be used in lieu of already authorized general fund supported general obligation bonding and would be paid from a sum sufficient segregated appropriation under the cash building projects fund that would be established for this purpose. Provide that before any monies are transferred to the cash

building projects, the payment delay of \$115,000,000 of general school aids scheduled to be made in June, 2003, must first be brought back by using the first \$115,000,000 of monies that would otherwise, under this provision, be deposited in the cash building projects fund (see also Required Statutory Balance).

**Veto by Governor [F-2]:** Delete all the substantive provisions relating to the creation and use of a cash building projects fund, including the transfer of 50% of "excess tax revenues" to such fund. The effect of the Governor's partial veto, compared to SB 55 as passed by the Legislature, is that 50% of any taxes collected that are in excess of budgeted levels would still be required to be transferred to the budget stabilization fund, but the other 50% of such "excess tax revenues" would remain in the general fund and be available for appropriation by the Legislature.

[Act 16 Sections: 236, 245, 981 and 1131]

[Act 16 Vetoed Sections: 103, 245, 395 (as it relates to s. 20.867(6)(a)&(q)), 980c, 1104n, 1145d and 9101(25j)]

## **5. BUDGET REPORTS BY DOA AND LFB**

**Governor/Legislature:** Create statutory reporting requirements for the Secretary of DOA and the Legislative Fiscal Bureau relating to certain estimates of current and future general fund revenues and expenditures. As a part of each biennial budget process, require that the Secretary of DOA for the Governor's budget and the Legislative Fiscal Bureau for biennial budgets as adopted, respectively, by the Joint Committee on Finance, the Assembly, the Senate, and by any Committee on Conference, prepare certain statements of estimated general purpose receipts and expenditures for the current proposed budget and for the succeeding biennial period [for example, for this budget (2001-03) and for the next biennial budget period (2003-05)]. Provide that these statements contain all of the following:

a. For the second year of the current proposed budget (2002-03, for example), based on the general fund condition statement, a comparison of the total revenues available after deducting any opening balance and one-time deposit of revenues in the general fund with the total net expenditures (gross appropriations, compensation reserves and transfers less estimated lapses) adjusted for any one-time expenditures of \$5,000,000 or more for that year [*Note: a comparison such as this is often used to identify the amount of the structural balance in the budget (that is, the relationship between on-going expenditures and on-going revenues)*].

b. An estimate, for the next biennial budget period (2003-05, for example) of any provision in the current proposed budget (2001-03, for example) that has full funding implications in that it would require an increase in general fund spending in the next biennium over the amount in the current proposed budget or would result in a decrease in general fund revenues in the next biennium from the level projected for the current proposed budget.



c. An estimate of the increase in GPR spending in the next biennium (2003-05, for example) for the following expenditure categories: (1) general equalization school aids; (2) appropriations to the Department of Corrections; (3) state medical assistance program appropriations; (4) compensation reserves; and (5) debt service payments. [For this calculation, provide that the estimate shall be prepared using an increase for each expenditure category equal to the amount of increase that that category in the current proposed budget was over the prior biennial amount for this expenditure category].

d. An estimate of the difference between the amount of general fund tax revenues that will be received in the next biennium (2003-05, for example) and the amount of taxes received in the current biennium (2001-03, for example). [For this calculation, require that: (1) the amount of general fund taxes received in the current biennium shall be the amount indicated in the general fund condition statement designated as "taxes;" and (2) the amount of general fund taxes estimated to be received in the next biennium shall be calculated by using an annual increase in revenues equal to the average annual increase in revenues for each of the ten preceding fiscal years and adjusting the amounts derived using those calculated increases in revenues by the full funding impact of any tax changes contained in the current proposed budget (2001-03, for example) that would reduce or increase tax revenues in the next biennium (2003-05, for example)].

e. A comparison of the total revenues for the second year (2002-03, for example) of the current proposed budget and total net expenditures for that year plus the level of increased funding estimated under "c." above, presented in a general fund condition statement format for the next biennium (2003-05, for example).

f. A summary of any additional revenues (above the amounts estimated in "d." above) that will be available in the next biennium (2003-05, for example) for increased expenditures or tax reductions.

In addition, require that the state biennial budget report (the Governor's Executive Budget Book) contain a comparison of the state's budgetary surplus or deficit according to GAAP (generally accepted accounting principles) criteria.

[Act 16 Sections: 115, 231 and 232]